U. S. SECURITIES GOVERNMENT FINANCE AND FEDERAL RESERVE SYSTEM

NEW YORK, MAY, 1915.

European Finance.

THE war loans to date stand as follows:

Great Britain	$2,525,000,000
France	1,802,400,000
Russia	1,065,000,000
Germany	3,491,000,000
Austria-Hungary	730,000,000
Total	$9,613,400,000

This goes so far beyond any credit operations known before that it would be very interesting to know just how it has been accomplished. Where have these funds been found and how much more can be had in the same quarters or by the same means?

There are only three sources from which they have been forthcoming: current savings, sales of securities in foreign markets and the pyramiding of credit, meaning by the latter the pledging of private or corporate credit as a basis for government credit. The public capital flotations on the London market for the first quarter of 1914 aggregated $485,000,000, but this amount was exceptionally large, the average for the first quarter in the ten years ending with 1914 being about $300,000,000, or at the rate of about $1,200,000,000 per year. In addition to the public subscriptions considerable sums of British income have been invested abroad by direct purchases or loans, and of course there has been an important volume of direct investment at home. The annual savings of Great Britain in recent years have been calculated at about $2,000,000,000. During the first quarter of 1915 the flotations on the London market for other than war purposes were less than $10,000,000. Investments abroad have practically ceased and there has been a considerable liquidation and conversion of such investments. Furthermore, construction work at home is practically suspended, except in connection with the war industries, so that nearly all savings may be assumed to be available for investment in the war issues. As to whether individual savings are greater or less than in times of peace is a question. The population is now more fully employed than in peace, the rates of pay and probably of profit are higher than usual, some people at least are practicing unusual economies, and while there is another side to it all, it may be that the aggregate savings are larger than usual. Of course, if true, this would not mean that England was getting richer by means of the war, but merely that something was being saved out of the war expenditures.

Less information is available about the other belligerent nations, but it is doubtless true that trade and industry have been more disturbed with them than in England. A very important part of France has been put out of business, and the foreign trade of Germany has been largely cut off. Nevertheless, including the war industries, which are financed by the loans, there is a large amount of business going on, and current profits are evidently a considerable factor in absorbing the loans.

The diversion of business from the usual lines to the production of war supplies, has released a large amount of liquid capital ordinarily employed in financing trade, and enabled it to be diverted to government finance. In other words, since the governments have become the principal purchasers in the markets trade is being largely financed through the credits created by the governments. Capital heretofore employed in trade, finding little demand in customary channels, has an outlet in the government issues. In London a large amount of capital has been employed in financing the world's trade, and the slump that this has suffered has contributed to the phenomenal ease of that market.

It is to be remembered that while trade loans are self liquidating, government loans are not, and one of the questions of the future is how capital will be supplied for trade when it returns to normal channels. However, after credit has been stretched to the limit in war perhaps it can be stretched a little further in peace.

Bank Liabilities and Reserves.

The demand liabilities in the form of note circulation and deposits, of the principal state banks of Europe as they were about April 1st and the same date a year ago, together with the gold holdings at the same dates, are given below:

CIRCULATION AND DEPOSITS.

	1915.	1914.
Bank of England	$1,193,000,000	$ 456,500,000
Bank of France	2,744,500,000	1,245,000,000
Bank of Germany	1,708,000,000	844,500,000
Bank of Denmark	35,985,000	22,500,000
Bank of Sweden	94,000,000	63,000,000
Bank of Netherlands	230,000,000	125,000,000
Bank of Russia	2,093,000,000	1,150,000,000
Bank of Switzerland	94,100,000	65,000,000
Bank of Spain	516,000,000	480,000,000
Bank of Italy	541,000,000	359,000,000
Totals	$9,249,585,000	$4,810,500,000

GOLD HOLDINGS.

	1915.	1914.
Bank of England....	$ 265,000,000	$ 147,300,000
Bank of France....	850,000,000	723,000,000
Bank of Germany...	578,000,000	314,900,000
Bank of Denmark...	25,500,000	12,000,000
Bank of Norway.....	15,000,000	11,500,000
Bank of Sweden.....	31,000,000	28,900,000
Bank of Netherlands	120,000,000	66,600,000
Bank of Russia......	783,000,000	779,100,000
Bank of Switzerland.	48,000,000	33,950,000
Bank of Spain.......	119,000,000	109,000,000
Bank of Italy.......	269,000,000	243,000,000
Totals............	$3,103,500,000	$2,462,150,000

The deposits and circulation have increased nearly one hundred per cent while the gold holdings have increased about twenty-six per cent. In Germany there are also paper issues by the Treasury and loan banks, said now to approximate $450,000,000, against which no special gold reserve is kept, the notes being receivable at the Reichbank. In England on April 14th, there were also outstanding $206,300,000 of British Treasury currency, in denominations of one pound and ten shillings, against which $137,500,000 of gold was segregated at the Bank of England. The volume of these notes is slowly increasing, which is not in itself strange, since the country has had no paper currency below the five pound note, but it would seem that in taking these notes the country should have given up some gold. The Bank of England's gold stock touched high water mark on November 18th last at about $360,000,000. It now stands at about $275,000,000, showing a net loss of $85,000,000. During this time $90,000,000 has been segregated for the Treasury notes, about $37,000,000 has been sent from Ottawa to New York and about $25,000,000 has been earmarked for Argentina, there have been segregations of minor amounts for Egypt and other countries and small exportations from London to the United States. On the other hand the Bank should be receiving approximately $20,000,000 per month of new gold from the mines in South Africa Australasia and Canada.

The Reichsbank has gained steadily in gold throughout the war period, its reserve rising from $328,000,000 on July 23 of last year to $588,000,000 on April 27, this increment being practically all from the private holdings of the people. In fact, the gains from the public have exceeded these figures, as the bank has permitted some gold to be exported.

It would be a mistake to suppose that the expansion in the condition of the banks shown above was all, or even mainly, due to the government loans. Most of it occurred immediately after the outbreak of the war; and was largely due to loans to the business public, made necessary by the sudden disruption of international relations, and the paralysis of credit. The English merchants who had been cut off from remittances from Germany and the German merchants cut off from remittances from England, both had to have help. The holdings of the Bank of England in "other securities", which includes loans to the public, rose from $183,000,000 on July 22 to $581,000,000 September 2; in other words, they were multiplied by three, with something over, in five weeks. From this high point they declined with some fluctuations to about $489,000,000 on February 24, since when the movement has been upward to a new record on April 29 of $701,000,000. The Reichsbank on July 23, 1914 held discounts and advances to the amount of $200,000,000, and on August 31 they had risen to $1,200,000,000 or multiplied by six. No moratorium was declared in Germany, the situation being handled from the first by free lending at the bank. Moreover, the German government did not resort to the public loan market as soon as the British government. This increase of loans to the public had the direct effect of expanding the deposits and note circulation of these banks. The deposits of the Bank of England were $270,000,000 on July 23 and $788,000,000 on September 2; its note circulation is unimportant as a means of extending credit. The note circulation and deposits of the Reichsbank rose from $700,000,000 on July 23 to $1,600,000,000 on August 31.

This sudden expansion of loans and liabilities was characteristic of the other central banks of Europe, and the same phenomena would have occurred here if our reserve system had been in operation. In ordinary times no such expansion would be possible, because the authorities would oppose it and check it by raising the discount rate, but in the face of the war emergency a liberal policy was adopted, although the Bank of England charged two per cent. above the bank rate upon premoratorium bills.

This lending by the central banks was not direct to the public, but was effected by taking over acceptances from the other banks, thus relieving the latter and building up their balances at the central banks. And just here a far-reaching effect, which may or may not have been foreseen, was produced upon the credit situation. In the ordinary course of business these acceptances in the individual banks would have been paid by checks and the checks would have been cleared and have cancelled each other, thus liquidating the banks to that extent, except as new acceptances took their places. But when these enormous amounts of paper were turned over to the central institutions, the effect was not only to add to their deposits but to increase by several times that amount the ability of the joint stock banks to make new loans, because credit at the central banks is treated the same as cash in vault. We have an illustration of this is in the United States, as a result of the provision of the Federal Reserve Act releasing a portion of the reserves in national banks. The ability of the banks to make loans has been enlarged by several times the amount of the reserves released.

Easy Money Markets.

This is the explanation of the extraordinary credit situation which exists all over the world, and which is not easily reconciled with the enormous demands for credit created by the war. It is an abnormal situation, and in some respects a dangerous one, for the central banks have lost control of it. Ordinarily, the central banks of issue hold back their reserves until the open market is loaned up, when they come to the support of the situation and control it by means of a rising discount rate. Now the general situation in Europe is that the central institutions are highly extended while the open mar-

ket has a plethora of funds.

In London, while the bank rate since August has been five per cent., the prevailing rate on three to six months' bank bills throughout February was under two per cent. The situation was so artificial and unsatisfactory that in March a concerted movement was made to raise the market rate. The Bank of England entered the market as a borrower and the Exchequer borrowings were increased, with the result that rates stiffened to about three per cent. But this was not deemed sufficient, and on April 15 the government entered the market as a bidder for money in practically unlimited amounts. Heretofore it has been the practice to invite tenders from time to time for specified amounts, as the funds were needed, but under the new plan any person desiring treasury bills can obtain what he wants of them, running three, six or nine months at his option, at a rate of interest to be fixed from day to day by the Treasury. The first offer was of three months' bills at 2¾ per cent., six months at 3⅝ and nine months at 3¾. This has the effect of establishing minimum rates for money in that market, and is done with a deliberate purpose to lift the rate and to get control of the idle funds.

The most commonly mentioned reason for wanting dearer money has been that it would correct the high exchange rate with the United States and prevent gold exports, but from this viewpoint the exchange situation seems to require entirely different treatment. In normal times a rise in the London discount rate turns applications for credit to other markets, and in this way influences the exchanges and the movements of gold. But at this time exchange rates are chiefly affected by the trade balance, which is favorable to this country, and money is so easy here that competitive rates have little to do with the situation, although possibly a rise in London might turn some foreign borrowing to this country.

There is, however, a better reason than this for attempting to employ the idle funds, and that is found in the danger that they may foster speculation.

Dangers of Inflation.

In ordinary times such an inflated condition of the central institutions, with easy and cheap money in the open markets, would be full of possibilities of mischief. It is an axiom that available funds will inevitably find their way into use, and aside from the fact of war the stage is now set for a gigantic play of credit and prices with the usual safeguards wanting. Will the demands of the war upon credit and industry prevent the readjustment that would otherwise occur under like conditions? In this country there has been stir enough on the Stock Exchange to suggest the inception of such a speculative movement. It usually begins with stocks. The London stock market has been so dead, however, that on March 19 a new and lower list of minimum prices was promulgated and the market quickly dropped to most of them. Since then, on the strength of the New York market, a little more life has been manifested there but nothing like a speculative fever has appeared.

The great danger from an expansion of credit is a disturbance of prices and values, but the war is a depressing influence which goes far toward suppressing speculative adventures. It is hard for the European public to see visions of prosperity under present conditions. The absorption of Europe in the war, and the complete employment of all its productive and constructive resources in the war, make practically impossible such an expansion of industry as usually characterizes a period of credit expansion and speculative prices. In this sense the war may be said to be a conservative influence. The continuous outpouring of government securities, together with all the uncertainties of the future, tends to keep down the price of standard securities and that influence reaches out to every class of investments. But, it may be asked, if the currencies depreciate, do not prices rise by that very fact; and will not this make all values speculative? Have not commodity prices risen already? Commodity prices have risen, but there are too many other influences, such as disorganized trade, scarcity of shipping, scarcity of labor, etc., to allow of saying that the currencies are depreciated in domestic transactions by reason of redundancy. Measured by its value in exchange transactions, the currency of the United States was "depreciated" during several months last Fall, but it was not redundant or depreciated in domestic trade.

The bank deposits of England and the currency issues of Germany and France represent practically the same thing—credit in different forms. Undue expansion in either form is dangerous; whether more dangerous in one form than the other we will not consider here. That credit has been over- created in circulating form in all these countries is evident, but all ordinary conditions and rules are set aside. In both Germany and France there is constant conversion of notes into interest-bearing bonds, the Reichsbank circulation being about the same now as at the end of August. In England where checks are the common means of payment, the bank deposits are being drawn upon for the same purpose. The proceeds of the loans replenish the government bank account, are then distributed in payment for war supplies and reappear in deposit accounts, from which they are again transferred to the government account by new loans. To whatever extent, however, the subscribers to the loans are obliged to borrow of the banks, the volume of deposits will be smaller and the percentage of reserves will deminish, unless the stock of gold is increased.

In Germany, in order to relieve the Reichsbank in part, war loan banks were established in all the principal cities, but including their liabilities and all of the demand liabilities of the Reichsbank, the percentage of gold reserve on March 23 is given by a competent authority as 30.9.

The Bank of England's reserve has been unfavorably affected since February by the segregations of gold noted above, and also by an increase of deposits, resulting in part evidently from a further expansion of its own loans. The agreement which accompanied the war loan in December, that the bank would lend the full face value of these bonds upon them at one per cent. less than the regular

bank rate, is probably responsible for this. On the strength of this pledge some of the English banks are carrying their war bonds with the item of "cash and on call." Under all these influences the percentage of reserve has fallen to 17.87. If the assets and liabilities of the currency fund were consolidated with those of the bank, as should be done, the gold reserve would be about 22 per cent. It is to be considered in this connection that the Bank of England in recent months has been acting as fiscal agent for all the Allies on an agreement that in due course its reserves will be properly compensated from Paris and Petrograd. Heavy purchases of supplies for both France and Russia are being paid for through London.

The Situation in the United States

The situation in the United States is strong and sound at this time. We have, however, previously pointed out that there are great possibilities of credit expansion here, owing to the reduction in the reserve requirements of the national banks, and that the Federal Reserve system would have no control over such expansion until it had reached the stage where the member banks were needing help. If the existing slack should be taken up rapidly by means of speculation and rising prices, instead of by legitimate growth, the resources of the Federal Reserve system might be seriously strained. It must be borne in mind that the system is new and only comes into its full resources in the course of three years, while the new reserve rule for the member banks is already in full effect. In other words, the old reserves have been reduced before the new reserves are in full working order. Notwithstanding this situation, there are people who think the Reserve Banks are altogther too slow about getting their funds into use.

There are ample banking resources in the United States to handle the business of the country in a conservative and even enterprising manner, but no great expansion of credits is necessary for that purpose; and in view of world conditions, the bankers of this country will be wise if they set their faces against it for any other purpose.

British Foreign Trade.

The imports of Great Britain are running beyond all records, the figures for March being approximately $375,000,000, or at the rate of about $4,500,000,000 a year. The exports of British-made goods for March were about $150,000,000, or 32 per cent. below March, 1914. For the first quarter of 1915 exports were 36 per cent. below the same quarter of last year. It is scarcely to be expected that they will do much better, for England is no longer financing construction work in other countries, which normally is an important factor in its export trade, and, furthermore, she has neither labor nor plants to spare for a full foreign trade.

These figures show that the adverse trade balance is running very high, in fact at the March rate it would mount up in a year to over $2,000,000,000. England, normally, has an adverse trade balance on merchandise, which is more than balanced, however, by other income in the form of dividends, interest, shipping charges, etc. To what extent the present balance is so covered can only be surmised.

The rise in prices has materially affected the value of the imports. The Sauerbeck tables of London prices on forty-five commodities, mostly raw materials and food products, for March show that in March, the price level of these commodities was higher than at any time since the crisis, 1873, and 25 per cent. above prices of March, 1914.

Our Foreign Trade and Exchanges.

Our foreign trade for March was of the one-sided character lately become familiar. Exports surpassed all records for that month, and exceeded those of March, 1914, by $111,000,000, while imports fell $24,500,000 below those of a year ago. The excess of exports over imports, in round numbers, was $141,000,000, and for the four months, December to March, $592,300,000. The preliminary reports for April indicate a tendency for imports to rise and exports to decline, which would be quite normal at this season. If we are to have a revival of industry in this country, an increase in importations of raw materials will be necessary, and, as we are nearing the end of the crop year, the exportation of agricultural products may be expected to fall off. The exports of wheat and its equivalent in flour have averaged approximately 1,000,000 bushels per day, Sundays included, since July 1st last, and for the full fiscal year will far surpass the record of any previous year. The exports of cotton on the 1914 crop have now passed 7,000,000 and are only about 1,000,000 bales behind the same period last year.

Outside of war supplies and food products, there is little that is noteworthy in foreign trade developments. Aside from the movement to Great Britain, France, Italy, Holland and the Scandinavian countries, our exports have declined, and the losses in the South American and Asiatic trade have been a large percentage of the total.

The exchange situation has undergone but little change in the past month. No further banking loans to foreign governments have been announced, but the rise of the New York stock market has brought home an important amount of American securities, and accomplished for the time being the same result. The fact that sterling has not risen above $4.80 is evidence that the relief is only temporary, and that the method of making payment for continuing purchases by the Allies remains to be determined. Gold is coming in moderate quantities from many countries, since January 1st, $37,300,000 from Canada, $3,700,000 from China, $6,625,000 from Japan, $1,050,000 from London, $1,000,000 from South America, $300,000 from Denmark and $2,000,000 from Holland; in all $51,975,000. A draft on New York is a good tender anywhere in the world.

The Stock Exchange.

The stock exchange has emerged from the inanimate state in which it existed for about three months following its reopening, and of late has been the scene of more activity than had prevailed for a long period even before the outbreak of the war, if the days of alarm immediately preceding be ex-

cepted. Thus for 1915 up to and including April 28, total sales on the exchange were 36,451,741 shares, against 29,056,516 shares in the same period of 1914, and the figures are more significant when it is understood that the gain has been all in the last two months. Moreover, the average price of fifty active stocks on April 28 was $72.05 per share as compared with $66.84 for the same stocks on the same day of 1914.

Confidence in the economic position of this country had been growing with the increasing favorable trade balance, and as the weeks passed without the anticipated flood of American securities from abroad, the speculative spirit, long repressed, began to make itself felt. The movement commenced with the stocks of certain industrial companies known to have benefited by war orders, and of which there were practically no holdings abroad. As interest broadened it spread to the railroad issues, and as higher prices were established, and sales from abroad were readily absorbed, the situation became definitely stronger. It is believed that foreign liquidation during the period has been important. The London Exchange opened under an agreement with the London bankers that collateral loans would not be pressed for payment unless the securities pledged should rise above the official minimum at which they were permitted to be sold on the Exchange, in which case the agreement terminated. The rise of prices on the New York Exchange had the effect of causing these loans upon American collateral to be generally cleaned up. It is understood that the floating supply of American stocks and bonds in London is reduced to small proportions, so that the holdings that remain are investments of the class not readily dislodged. The strength of the New York market encourages such owners to hold rather than sell, although the war will continue to be an influential factor as long as it lasts. Indications that it will be protracted are interpreted unfavorably to the market, on the theory that as the pressure for funds increases, a downward readjustment in the values of foreign securities will occur, and that American securities will be likewise affected.

The following table showing the quotations of a list of well-known stocks on the last day of July, 1914, together with official minimum prices at opening on December 15th, and on March 1st, and 15th, and April 1st and 27th, will give a good idea of the general range. Prices at opening of the Exchange are the first sales, prices of last four dates are last sales. The lowest minimum for Baltimore & Ohio was 67 and for United States Steel was 38.

	Closing 7-30 14	Min. at Op'ng	Price at Op'ng	3-1-15	4-1-15	4-15-15	4-27-15
Amalgamated Copper ..	49⅝	47	50¼	53¾	62¼	74¼	77⅝
Amer. Tel. & Tel.....	114	112	116⅞	119¼	119¾	121¼	121¼
Atchison	89⅝	86	91¼	94¾	99¼	102¼	103¼
Baltimore & Ohio.......	72	67	70¼	64⅝	71¼	76¼	77⅞
Bethlehem Steel	30	30	42	54¼	86¼	132	146
Canadian Pacific	157¼	153	160	154¼	161⅞	168⅜	167¼
Chic., Rock Is. & Pac..	....	Free	...	19	29	36⅝	21¾
Chic., Mil. & St. Paul..	85½	82	86	84⅞	88⅝	93¼	95¼
Great Northern Ry....	114	110	119¼	113¼	118	120¼	121
Lehigh Valley	122	119	138	132¼	136⅞	142¼	143
New York Central.....	80	78	85	81¼	84	87½	88⅜
Northern Pacific	98⅜	96	104½	100¼	105	108¼	109¼
Reading	140	136	145¼	142¼	145½	151	151
Southern Pacific	84⅞	81	89	82⅞	86¾	93	92⅝
Union Pacific	113¼	111	121⅞	117⅝	125	131¼	131
U. S. Steel..............	51½	48	54¾	42⅝	48⅝	57	57⅜
Western Union	54	52	58½	63¼	65¼	68	68¼

Prices at opening of Exchanges are the first sales.
Prices of the last four dates are the last sales on those days.

The appointment of a receiver for the Rock Island system has had comparatively little influence, the troubles of that company having been before the public so long that they are an old story.

Bond Market in April.

Both in volume of business done and in the importance and interest of specific transactions, the bond market of April has been one of the most noteworthy in many years. For the three months to March 31, 1915, the total bond sales on the New York Stock Exchange had been only $164,165,500, as against $222,587,000 in 1914. So great has the activity been during April that, at its close, the deficiency for the first three months has been practically made up. The sales from April 1 to 29, 1915, amounted to about $104,500,000, as against $55,767,-000 in 1914. The transactions on the last day of the month will probably bring the total sales up to nearly $110,000,000 for April, 1915, as against about $57,000,000 in April, 1914.

The month marked the successful termination of the operations of the syndicate which in March purchased $27,000,000 New York State 4½% bonds, and the demand for these securities in the open market has since advanced their price approximately ½% above the price at which they were offered and sold by the syndicate.

The success of the New York Central's offering to its shareholders of $100,000,000 6% Convertible Debentures was also assured within the month. This issue was the largest single contributing factor to the enormous activity of the bond department of the Stock Exchange in April, over $29,000,000 of these bonds being bought and sold on the board. They maintained a level of about 100½ up to about April 20; after that date the insistent buying in large amounts steadily increased the price until at the close of the month it stood at about 104. Competent judges of bond values are still of the belief that these bonds are intrinsically cheap.

The offering of $8,000,000 Commonwealth Edison Company First Mortgage 5's, through a strong syndicate of bank and bankers, was so eminently successful that all the bonds were sold within a few hours.

The New York, New Haven & Hartford provided for the $30,000,000 of obligations maturing on May 1 by the sale of $27,000,000 One Year 5% Notes offered to the public at 99¼, the balance being met from the Company's cash resources.

Towards the close of the month the Baltimore & Ohio also took advantage of the healthy investment demand to provide funds with which to meet the $35,000,000 notes maturing June 1 by the sale of $40,000,000 new notes, one-half of which come due on June 1, 1917, and the balance on June 1, 1918. Both of these note issues were eminently successful, and the demand for the New Haven notes was so heavy that they subsequently advanced to a price around 99¾-⅞.

The Missouri, Kansas & Texas experienced somewhat more difficulty in taking care of the $19,-000,000 5% Notes due on May 1. It was finally found necessary to request the holders to accept an extension for one year at 6%. It was stated on

April 29 that holders of over 85% in amount of the notes had signified their acceptance of the terms and that the extension agreement would be declared operative.

General Business Conditions.

The signs that tell of the actual volume of business moving in the country do not indicate the improvement that was hoped for in the month of April, but popular confidence in the future is undoubtedly stronger. Offerings of commercial paper are light and rates are no higher. The amount of fractional silver coin in circulation, as shown by Treasury reports, is a good sign of the volume of retail trade; normally the country absorbs $4,000,000 or $5,000,000 of new coin per year, but the amount in circulation April 1st last was less than on April 1st, 1914. Railway earnings in March were slightly better, but not enough so to encourage more liberal expenditures. All of the roads are being operated upon a very economical basis, and this policy is a factor in the depression complained of in many industries. The steel industry is doing much better than in December last, and is being helped by war orders and the elimination of foreign competition, but domestic business is below normal.

There is a great revival under way in the copper industry and it is wide-reaching in its industrial effects, reaching from the mining regions to the brass rolling mills and ammunition factories of Connecticut. Last fall the copper mines were reduced to 50 per cent. of normal production; now every effort is being put forth to raise production to the maximum. Existing stocks of copper have been cleaned up, and the price has advanced from 12½ cents in August and 13½ January 1st to 19 cents per pound at this date. About three months' time is required to convert ore in the mine into merchantable copper, and as mines, smelters and refineries had all been running light for many months, some time must elapse before their forces are reorganized effectively and they are working to full capacity. At present prices there is every incentive for them to do so.

The lumber industry would be very much helped by the British demand if ships were available. The regular supply of lumber from the Baltic region is cut off, and a large amount of business is offered to this side, but tonnage is scarce. Mills in Maine, the Southern States, and the Pacific Northwest are being hampered by this situation. Lumber trade in the Middle West is reported better, and mills in Eastern Washington are generally running, although prices are said to be unsatisfactory.

The textile industries are running reasonably full, but the margin of profit on cotton goods remains small, manufacturers finding it difficult to advance the price of goods to keep pace with the advance of the raw material. The woolen industry has been much helped by war conditions, both in foreign orders and in the exclusion of foreign competition from this market.

Crop prospects, which in the Middle West were never better, are noticeably affecting sentiment. There is strong feeling that with another big crop and a continuation of the European demand, which now seems probable, the farming population is bound to be very prosperous and that this must favorably affect all industries.

Immigration is almost at a standstill, the total number of arrivals in the eight months of the fiscal year to February being only 3,000 in excess of the departures. With the opening of the Spring demand for labor, the unemployment problem is very much lessened.

The condition of the National banks as shown by the abstract of the statement of March 4, shows but slight change from the statement of December 31. Loans, deposits and reserves are all higher, but in unimportant amounts. The position of the country is strong economically and financially. New trade connections abroad are constantly being formed, from which permanent results may be expected. The approaching Pan-American conference at Washington will bring to this country important people from all the countries of Latin-America, and good is bound to come from every such gathering. The natural forces that make for recuperation and progress are very strong in the United States and if they could have free play, the forward movement would be very rapid. Unfortunately several of the corporations that have accomplished most in finding new markets for American goods are now waiting from day to day to know whether or not they have any legal right to exist.

Agricultural Prospects.

Although the spring has been backward in the West and South and dry in the East, farming operations have begun generally with a most encouraging outlook. This is particularly true throughout the corn and wheat country, where the soil is in fine condition to receive the seed, and moisture is abundant. The spring wheat is practically all in the ground, the winter wheat is most promising and there is now a good prospect for a crop nearly, if not quite, as large as that of last year. The outlook for a foreign demand for wheat is also excellent. Stocks are low, prospects are not good for heavy Russian exportations even if the Dardanelles are opened, and foreigners are already contracting freely for the new crop on about the present price basis.

The experience of the South with a record cotton crop in a year of utter demoralization in foreign trade, will go far to establish faith in the future stability of cotton values. There has been a surprising degree of confidence in cotton outside of the trade; in fact, the outside interest has led the market. While there are many conflicting reports about the planting this year, it seems to be settled that there will be a sufficient reduction of acreage and fertilizer consumption to materially affect the crop. The reduction in acreage if made good by other crops will doubtless be advantageous, but a loss through poor yield will hardly yield any benefits. The big crop of last year was due to exceptionally favorable conditions and could hardly be repeated in the following year.

The war has lifted the price of wool, so that western sheep-owners will probably realize for this year's fleeces the highest prices paid for wool

in many years. The value of the flocks has been materially advanced in consequence.

The number of sheep on the western ranges, however, has been much diminished in the last five years. The influx of farmers to the arid regions has been so great that the sheep industry, which for a time survived the range cattle industry, now has been seriously affected.

One of the best informed men in the country upon the cattle industry writes us as follows:

> The cattle business in the West is in a state of evolution, and has been for ten years. As the big ranches disappear, it is a slow business replacing them with smaller ones. The latter in the long run will be infinitely more valuable to the country at large, but when changes are violent, time is the only remedy.
>
> Government returns show a slight gain in our cattle census for 1914, and our observation tends in the same direction. The consumption of meat per head of our population is declining, and with a slight increase in production the consumer may look ahead to cheaper beef and pork. At present, there are too many consumers and too few producers.

The receipts of live stock at the ten principal markets of this country, which are Chicago, Kansas City, South Omaha, East St. Louis, South St. Joseph, Sioux City, South St. Paul, Denver, Fort Worth and East Buffalo, for the first quarter of 1915, make the following showing in comparison with the same period in 1914. The top prices per hundred weight in each class are also given:

	1914	1915	Per Cent Inc. or Dec.	Top Prices 1914	Top Prices 1915
Cattle	2,186,756	2,085,753	— 4.62	$9.14	$8.80
Hogs	5,800,713	7,248,883	+24.96	8.75	7.85
Sheep	3,765,475	3,141,602	—16.57	8.60	10.85

March receipts of cattle showed an increase of 3.39 per cent. over those of March, 1914.

Our correspondent sends us a record of the selling values of stray steers, sold by the brand inspector of the Wyoming Stock Growers Association on the Chicago market since 1890, as giving a fair indication of the advance in the value of range cattle in these twenty-five years:

Year	Steers	Year	Steers	Year	Steers
1890	$26.78	1899	47.84	1907	53.38
1891	$34.23	1900	47.18	1908	51.32
1892	$33.12	1901	50.04	1909	56.72
1893	31.01	1902	45.78	1910	49.76
1894	33.02	1903	29.50	1911	50.42
1895	36.70	1904	33.28	1912	66.95
1896	32.61	1905	35.68	1913	72.72
1897	38.35	1906	46.16	1914	81.19
1898	41.26				

Our correspondent says:

> It's a long way from an average of $26.78 for range steers in 1890 to an average of $81.19 in 1914, but it represents the road the range beef steer, and his corn fed cousin as well, have traveled during the past quarter century.

The Department of Agriculture makes the announcement that not a single known case of the foot and mouth disease now exists in the United States. Sporadic cases are expected to develop, but the disease is completely under control. In all 124,141 head of cattle were killed by the department in its campaign.

Treasury Finances.

The deficit in the United States Treasury for the current fiscal year has crossed the 100-million-dollar line. Its record for the fiscal year is as follows:

August 1, 1914	None
September 1, 1914	$ 14,838,603
October 1, 1914	26,655,422
November 1, 1914	43,629,743
December 1, 1914	57,233,343
January 1, 1915	65,358,774
February 1, 1915	72,251,750
March 1, 1915	83,440,615
April 1, 1915	92,476,046
April 24, 1915	100,033,336

The general fund is in the peculiar position of showing a cash balance of about $23,000,000 over demand liabilities, with about $33,000,000 of assets in subsidiary and minor coin and silver bullion. The liabilities, however, include disbursing officers' balances and various items which do not call for immediate payment, and the department counts upon receipts from the income tax to place its affairs in comfortable condition by the latter part of June. Receipts from this tax are said to be coming in earlier than usual, but the foregoing statement indicates that the war revenue receipts and income tax so far have disappeared without giving any sign.

The Federal Reserve System.

The rediscounts and investments of the Federal Reserve banks have been slowly rising week by week to higher figures. The cash, rediscounts and note circulation each week since the banks began business are shown by the following statement:

	Total Cash.	Rediscounts.	Fed. Res. Note Circulation.
April 23	$267,894,000	$36,478,000	$10,889,000
March 26	265,260,000	31,683,000	8,889,000
Feb. 26	277,994,000	20,469,000	5,328,000
Jan. 29	256,787,000	13,955,000	2,278,000
Dec. 31	255,647,000	10,593,000	3,375,000
Nov. 27	262,470,000	7,383,000	2,700,000
Nov. 20	240,723,000	5,607,000	1,215,000

In addition to the rediscounts, the banks on the 23rd instant held investments aggregating $24,858,700.

The figures for circulating notes outstanding are for the actual amount less lawful money deposited with the Federal Reserve agents for their redemption. Thus the New York bank had $25,040,000 notes outstanding which were covered by $24,858,700 of lawful money and $181,300 of commercial paper. As the notes are put into circulation in exchange for gold and other lawful money, the reserves of the Federal banks are strengthened and their ability to grant credits enlarged. The New York bank is now earning more than its current expenses, and this is believed to be true of a majority of the banks. The Richmond, Atlanta and Dallas institutions are doing much better than that. As the conditions since the banks opened have been about as unfavorable for earnings as they are ever likely to be, the question of their ability to pay their way may be regarded as practically settled. In a time of normal business activity, they should be able to earn an amount ample to take care of their dividend requirements.

The Check Clearing System.

The plan for the new system of clearing out-of-town checks is set forth in the communication, appearing elsewhere, addressed by the Federal Reserve Bank of New York to its members. Practically the same plan has been adopted by the other

banks of the Federal Reserve system. There is nothing arbitrary or revolutionary about the scheme, for no member is obliged to come into it unless willing to do so; it is put out as a tentative plan for experiment and consideration. Generally speaking, the city banks are understood to favor the clearing system, although it is agreed that collections need not necessarily be made free and probably should not be in all cases. The opposition to the clearing system has been in the main from the banks in small towns where the item of exchange charges is a matter of some moment.

The announcement of the reserve system plan was followed by an announcement of a leading trust company of New York, offering to cash at par the checks upon state banks that would keep sufficient balances with it for that purpose, or practically to duplicate for state banks the check collection service of the reserve banks. The chief significance of this offer is that it seems to accept the view that a general clearing of checks will be beneficial to the banks participating, rather than harmful. It emphasizes the value to an interior bank of having its checks paid in New York at par, which is precisely the view that the Federal Reserve authorities have been urging. When the country banker is satisfied that the advantage to him in having his checks cleared in New York and other centers at par will compensate for the loss of his present income from exchange charges, one serious obstacle to a unification of our banking system will have been overcome. With this disposed of, practically the only remaining objection to membership in the reserve system will be the requirement that balances must be kept at the reserve banks without interest. There is no dissent the world over, in scientific opinion, from the conclusion that a central institution which carries the final reserves of a country, and upon which the banking system as a whole relies for ready cash, should not pay interest on deposits. The reason is that the payment of interest compels a bank to actively employ a larger proportion of its resources than is advisable under such responsibilities. On the other hand, the maintenance of large reserves by a central institution, together with the power of note issue, enables the member banks to carry smaller reserves than otherwise would be safe, so that they actually lose nothing in earning power by supporting a central institution.

Unification Desirable.

Along with the district clearings, it is planned to have an inter-district clearing house at Washington, with a gold fund for the settlement of balances. The entire scheme seems to present the simplest and most economical method of dealing with the check problem, provided all classes of banks come into the system.

There is no occasion for impatience because the state banks take their time in looking over the Federal Reserve System; probably a good many national banks would have done the same if they could have had their choice about it. Moreover, a large number of the state banks are ineligible at present because of the condition as to capitalization. Criticism, therefore, is not in order at this time and none is intended in saying that ultimately the country will be best served by having all banks organized in one closely-knit system possessing the power of note issue.

It is unnecessary to argue that the power to issue paper currency must exist somewhere; the banking business, and the general business interests of the country would be insecure without it. All of that has been thoroughly discussed in this country until there is practically no dissent. It remains only to perfect the system and make it as strong and serviceable as possible. It will be twice as strong and serviceable if all the banks are in it as if only one-half are in it; therefore we must look forward to eventually having all banks in it, and having it conducted on the most approved and scientific lines. We are confident that no considerable number of bankers are going to agree that a banking organization with the power of issue should be maintained, and then stay out of it themselves. There will be a process of adjustment and compromise, but eventually we will have one strong system, fittingly representative of the banking resources of the United States. Every far-reaching change is bound to involve some temporary losses, but when the end in view is worth while, these must be accepted, and in this instance when everybody is in the unified system and banking practices are all adjusted to it, not only will the banking business have greater security but everybody will make as much money as before.

The National Banking System.

While we may be confident that the country will eventually work out a unified or federated banking system, organized around an institution of issue, it is by no means certain that the national banking system under the present statutes will be the main factor in the organization. In the course of three years the old reserve features of the national banking system, one of the strongest elements of cohesion, will disappear. The prestige of the system has been undeniably great in the past, but it will be overshadowed in the future by the prestige of the Federal Reserve System. It will be a simple matter for a bank to change from the national banking system to a state system, retaining as a state bank membership in the Federal Reserve System, and there will be strong temptation to do it if banks in the state systems enjoy all the privileges of membership in the national system and escape some onerous conditions.

This is something to be constantly kept in view, both in fixing the terms of admission for state banks into the reserve system and in considering the various restraints and regulations which from time to time are proposed for the national system. The state banks have been gaining on the national banks even in the past, and with equal membership in the reserve system, it can scarcely be supposed that their position in the eyes of the public will be inferior to that of the national banks.

Trust Company Powers.

The trust companies are vigorously opposing the assumption of trustee functions by the national

banks. They have presented a protest to the Federal Reserve Board, supported by the opinion of eminent counsel, representing that the federal government has no power under the constitution to authorize a corporation to perform such functions. It is argued that the right to charter a bank was sustained as one of the implied powers, useful in carrying out certain recognized functions of the government, national banks being financial agencies of the government in issuing currency, receiving and disbursing money, etc.; but it is argued that the trustee function is in no way related to services of the Federal government and is not a function inseparable from banking.

The Federal Reserve Board has declined to act upon the protest except by resolving to continue the granting of permits to national banks under the authority of the Federal Reserve Act.

The states of Indiana, South Dakota and Washington have passed laws this year authorizing national banks to exercise fiduciary powers in those states, and the state of Virginia passed such an act last year. The states of New York and North Carolina have passed laws restricting such powers to corporations organized under the state laws.

The Board has given out the following statement touching the possibility of a conflict between state and federal authorities where national banks exercise the powers of a trustee:

From recent articles and statements it appears that the impression has been received in many quarters that where a national bank is permitted by the Federal Reserve Board to act as trustee, executor or administrator, the exercise of these powers will result in serious conflict of jurisdiction as between the State courts and authorities and the Federal Government.

It is somewhat difficult to understand upon what the ordinary assumption is based. It is assumed both as a matter of law and as a matter of policy that national banks exercising the powers referred to will be subject to the state laws relating to the administration of trust estates just as any other corporation which is permitted by state authority to exercise these powers.

When such estates are administered under the jurisdiction of courts, the national bank appointed by the court or named in the instrument creating the trust will, of course, be subject to the orders and rules of such courts, and there should not be any conflict of jurisdiction in so far as the administration of such estate is concerned.

It is unfortunate that a mistaken impression of the purpose and effect of this provision of the Federal Reserve Act should result in creating a seeming issue for which no real basis exists.

State Banks in the Federal System.

The Journal of the American Bankers' Association states that the legislatures of Delaware, Idaho, Kansas, Montana, North Dakota, South Dakota and Washington have passed laws this year empowering banking institutions organized under the state laws to subscribe for stock in the Federal Reserve Banks.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS APRIL 23, 1915.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates	15,695	95,113	14,941	16,000	8,377	4,904	34,105	10,194	8,057	10,479	7,799	13,046	238,710
Legal tender notes, Silver certif's and Sub. coin...	1,399	17,324	4,472	725	49	485	2,331	1,176	6	514	698	5	29,184
Total..............	17,094	112,437	19.413	16,725	8,426	5,389	36,436	11,370	8.063	10,993	8,497	13,051	267,894
Bills discounted and loans	2,175	6,044	1,967	1,989	6,947	5,153	2,483	708	812	989	4,675	2,536	36,478(c)
Investments..............	1,654	7,885	2,167	1,904	1		6,378	923	1,514	1,020		1,182	24,628
Due from other F. R. Banks net..................		11.417	651	450		489		2,739					8,254(b)
All other resources........	366	2,171	424	354	25	117	2.546	1,565	205	346	617	701	9,437
TOTAL RESOURCES.....	21,289	139,954	24,622	21,422	15,399	11,148	47,843	17,305	10.594	13,348	13,789	17.470	346,691
LIABILITIES													
Reserve Deposits..........	17,599	131,458	20,464	17,259	8,094	5,789	43,093	15,411	8,763	9,649	6,981	12,650	297,210
Due to other F. R. Banks net (b)..................	452				142		188		129	1,747	2,624	2,210	
Federal Reserve notes in circulation—Net Amt....					4,883	3,751				46	2,209		10,889(a)
All other Liabilities.......		1.804			41	20							1,865
Capital Paid in............	3,238	6,692	4,158	4,163	2.239	1,588	4,562	1,894	1,702	1,906	1 975	2,610	36,727
TOTAL LIABILITIES.....	21,289	139,954	24,622	21,422	15,399	11,148	47,843	17.305	10.594	13,348	13,789	17,470	346,691

(a) Total Reserve notes in circulation, 50,074. After deducting gold and lawful money in hands of Federal Reserve Agents, 39,185 for retirement of outstanding notes, the net liabilities of Reserve Banks upon outstanding notes, amount to 10,889.

(b) After deduction of items in transit between Federal Reserve Banks, 8,254, the Gold Reserve against Net Liabilities is 79.6% and the cash reserve is 89.3%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 91.2%.

(c) Maturities of bills discounted and loans: 30 days, 15,676; 60 days, 12,225; other maturities, 8,577; Total: 36,478.

Bankers' Acceptances.

The Federal Reserve Board prepared a new circular, dealing with Bankers' Acceptances, to take the place of Circular No. 5, Series of 1915. This was necessary because the Federal Reserve Act, as amended, provides that member banks may accept an amount up to 100% of their unimpaired capital stock and surplus. The new circular, known as No. 11, does not change Circular No. 5, excepting only by omitting the provision of the Act which limited the amount of Acceptances which may be taken with the endorsement of member banks to 50% of their paid in capital and surplus.

An introductory paragraph is added which is as follows:

Washington, April 2, 1915.

Circular No. 11.

BANKERS' ACCEPTANCES.

An amendment of the Federal Reserve Act, approved

March 3, 1915, made an alteration in paragraphs 3 and 5 of section 13, which are quoted at length in Circular No. 12.

This amendment granting the right to Federal Reserve Banks to discount acceptances of member banks based upon importation or exportation of goods beyond 50 per cent up to 100 per cent of their unimpaired capital stock and surplus, with the authority of the Federal Reserve Board, has made it necessary to issue a new regulation on the subject of Bankers' Acceptances. The Federal Reserve Board, therefore, issues this circular which is a reprint of and is to supersede Circular No. 5, Series of 1915. A new regulation is hereto appended which is to supersede Regulation D, Series of 1915, and which contains some alterations that experience has proved desirable.

* * * * * * *

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

The Regulation "J" governing Bankers Acceptances is given fully below:

Regulation J.

WASHINGTON, *April 2, 1915.*

BANKERS' ACCEPTANCES.

I. DEFINITION.

In this regulation the term "acceptance" is defined as a draft or bill of exchange drawn to order, having a definite maturity, and payable in dollars, in the United States, the obligation to pay which has been accepted by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

II. STATUTORY REQUIREMENTS UNDER SECTIONS 13 AND 14.

Section 13 of the Federal Reserve Act as amended provides that—

(*a*) Any Federal Reserve Bank may discount acceptances—
  (1) Which are based on the importation or exportation of goods;
  (2) Which have a maturity at time of discount of not more than three months; and
  (3) Which are indorsed by at least one member bank.

(*b*) The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made (except by authority of the Federal Reserve Board and of such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank).

(*c*) The aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks, under regulations to be prescribed by the Federal Reserve Board, to purchase and sell in the open market bankers' acceptances, with or without the indorsement of a member bank.

III. RULING.

The Federal Reserve Board, exercising its power of regulation with reference to paragraph II (*b*) hereof, rules as follows:

Any Federal Reserve Bank shall be permitted to discount for any member bank "bankers' acceptances" as hereinafter defined up to an amount not to exceed the capital stock and surplus of the bank for which the rediscounts are made.

IV. ELIGIBILITY.

The Federal Reserve Board has determined that, until further order, to be eligible for discount under section 13, by Federal Reserve Banks, at the rates to be established for bankers' acceptances:

(*a*) Acceptances must comply with the provisions of Paragraph II (*a*), (*b*), (*c*) hereof;

(*b*) Acceptances must have been made by a member bank, non-member bank, trust company, or by some private banking firm, person, company, or corporation engaged in the business of accepting or discounting. Such acceptances will hereafter be referred to as "bankers'" acceptances;*

(*c*) A banker's acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation) directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a "banker." In the latter case the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee.

(*d*) A banker's acceptance must bear on its face or be accompanied by evidence in form satisfactory to a Federal Reserve Bank that it originated in an actual bona fide sale or consignment involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

This acceptance is based upon a transaction involving the importation or exportation of goods. Reference No. ——. Name of acceptor ——.

(*e*) Bankers' acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the Federal Reserve Banks of their respective districts, upon request, information concerning the nature of the transactions against which acceptances (certified or bearing evidence under IV (*d*) hereof) have been made.

(*f*) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," under II (*c*) hereof, when the acceptor is secured by a lien on or by transfer of title to the goods to be transported, or, in case of release of the goods before payment of the acceptance, by the substitution of other adequate security;

(*g*) Except in so far as they may be secured by a lien on or by transfer of the title to the goods to be transported, as under (*f*) the bills of any person, firm, company, or corporation, drawn on and accepted by any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting and accepting, and discounted by a Federal Reserve Bank, shall at no time exceed in the aggregate a sum equal to 5 per centum of the paid-in capital of such Federal Reserve Bank;

(*h*) The aggregate of acceptances of any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, discounted or purchased by a Federal Reserve Bank, shall at no time exceed a sum equal to 25 per centum of the paid-in capital of such Federal Reserve Bank.

To be eligible for purchase by Federal Reserve Banks under section 14, bankers' acceptances must comply with all requirements and be subject to all limitations hereinbefore stated, except that they need not be indorsed by a member bank: *Provided, however,* That no Federal Reserve Bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless a Federal Reserve Bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

*Drafts and bills of exchange eligible for rediscount under section 13, other than "bankers'" acceptances, have been dealt with by Regulation B, series of 1915.

V. POLICY AS TO PURCHASES.

While it would appear impracticable to fix a maximum sum or percentage up to which Federal Reserve Banks may invest in bankers' acceptances, both under section 13 and section 14, it will be necessary to watch carefully the aggregate amount to be held from time to time. In framing their policy with respect to transactions in acceptances, Federal Reserve Banks will have to consider not only the local demands to be expected from their own members, but also requirements to be met in other districts. The plan to be followed must in each case adapt itself to the constantly varying needs of the country.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

Further Regulation Regarding Acceptances.

Circular No. 12 gives in full the text of the amendment to the Federal Reserve Act which appeared on page 14 in the April number of this bulletin. It also contains the following paragraph which is issued as an introduction to Regulation K:

WASHINGTON, *April 2, 1915.*

Circular No. 12.

ACCEPTANCE BY MEMBER BANKS.

"In order to give effect to the above amendment of the law, the Federal Reserve Board issues the appended Regulation K, series of 1915, stating the conditions under which member banks may accept, up to 100 per cent. of their capital and surplus, drafts or bills of exchange growing out of transactions involving the importation or exportation of goods and having not more than six months' sight to run."

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

WASHINGTON, *April 2, 1915.*

Regulation K.

ACCEPTANCE BY MEMBER BANKS.

Any member bank may accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods up to an amount not exceeding the capital and surplus of such bank, provided that—

(1) Every such bank shall possess an unimpaired surplus of not less than 20 per cent. of its paid-in capital;

(2) Every such bank shall file formal application with the Federal Reserve Bank of its district, which shall report to the Federal Reserve Board upon the standing of such applicant, stating also whether the business and banking conditions prevailing in the district warrant the granting of such applications in said district.

(3) Every such application shall first have been approved by the Federal Reserve Board.

Approval of any such application may be rescinded, and modifications of this regulation may be made, by the Federal Reserve Board upon notice of 90 days to the bank or banks thereby affected.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

Collection of Checks.

On April 20th the Federal Reserve Bank of New York issued a circular letter and form of resolutions to be adopted by member banks in this district, which set forth conditions under which checks and drafts are to be cleared.

Since this letter, to which reference is made on Page 7, is substantially similar to those being sent by other Federal Reserve Banks to their member banks, it is printed in full.

FEDERAL RESERVE BANK OF NEW YORK.

To the Cashier: April 20, 1915.

SIR:

The enclosed circular, rules and resolutions, of which a careful study is requested, are substantially similar to those being sent by other Federal Reserve Banks to their member banks.

RESERVE BALANCES.

In order that member banks which join the collection system may not be inconvenienced as a result of unexpectedly large charges to their accounts, special attention will be given by this bank to the volume of the items passing through their accounts. At the outset a record of the average reserve on deposit will be kept for each bank joining the collection system, advice of which will be sent each week. Members may be assured that the efforts of the officers of this bank will be to make the system both satisfactory and economical.

Experience it is believed will soon determine for each bank both what the daily volume of charges will average, and the average remittances of items which will be required to meet such charges. Where the average volume of charges is found to exceed the average volume of items which a member bank is able to remit as offset, arrangements may be made for regular transfers by reserve agents, or if necessary, currency may be shipped for this purpose.

This bank, at least for the present, will continue to clear, and all checks on member banks which are members of the New York Clearing House will be received on deposit as heretofore. Such checks will be credited as of the day of clearing. When received too late to be sent to the Clearing House on the day of receipt, they will be credited on the following business day.

EXCHANGE CHARGES.

Many of the member banks of this district derive a considerable income from exchange charges, which they are naturally reluctant to surrender. As the plan proposed is a voluntary one, those banks which are unable or unwilling to give up this revenue will be enabled to observe the operation and advantages of the system, with a view to determining whether later it may be desirable for them to join it. In order to facilitate their consideration, arrangements have been concluded with competent experts to make a careful study of the income, expenses, and methods of a number of typical member banks in this district in order to determine whether any economies may be effected or additional sources of income developed, and by what methods. The expense of these studies will be borne by this bank, and their general results will be available to all member banks desiring them.

CHECKS ON FEDERAL RESERVE BANKS.

Simultaneously with the beginning of actual operations under this system, a time allowance will be imposed upon checks drawn on other Federal Reserve Banks, which are deposited with this bank for collection by member banks. A schedule, showing the number of days for which credit will be deferred, is in course of preparation, together with a schedule of the charges at which the Federal Reserve Bank of New York will effect transfers by telegraph, both of which will be announced in due course.

The directors and officers of this bank ask for the co-operation of all member banks in the handling of this important matter. Inquiries in person or by letter concerning the circular and rules are invited and will be promptly and fully answered.

Respectfully,

BENJ. STRONG, JR.,
Governor.

RESOLUTIONS ADOPTED BY

............................BANK OF............................

WHEREAS the Federal Reserve Bank of New York has announced its readiness to undertake for its member banks the collection of checks and drafts drawn upon its member banks, and

WHEREAS the said Federal Reserve Bank of New York has promulgated certain rules and requirements governing its conduct and the conduct of member banks in the operation of the collection system, which rules and requirements are as shown by copy thereof hereto attached, and

WHEREAS this bank desires to avail itself of the privileges offered by the said Federal Reserve Bank of New York and to join the collection system so to be established,

NOW, THEREFORE, BE IT RESOLVED that this bank hereby joins the said collection system of the Federal Reserve Bank of New York under the plan submitted by that bank in its circular letter dated April 20th, 1915, and hereby agrees with the said Federal Reserve Bank of New York and with such other member banks of the Federal Reserve Bank of New York as have joined or may hereafter join the said collection system, to be bound according to the terms of the rules and requirements hereto attached, and by such other rules and requirements as may be hereafter promulgated.

AND BE IT FURTHER RESOLVED that the Cashier of this bank (or the Secretary of its Board of Directors) is hereby directed to forward to the Federal Reserve Bank of New York a certified copy of these resolutions.

I, the undersigned, do hereby certify that the foregoing is a true and correct copy of resolutions of the Bank of duly adopted at a regular meeting of the Board of Directors of the said bank at on the day of 1915, and that the said resolutions have not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the corporate seal of the said bank, at this day of 1915.

....

Cashier
or Secretary of Board of Directors.

[SEAL]

RULES AND REQUIREMENTS GOVERNING THE OPERATION OF THE COLLECTION SYSTEM OF FEDERAL RESERVE BANK OF NEW YORK.

1. Each member bank joining the system authorizes the Federal Reserve Bank of New York to charge immediately on receipt against its account, subject to final payment by such member bank at its banking house, checks and drafts payable upon presentation drawn upon it, deposited by other member banks which have joined the collection system.

2. The member bank undertakes to provide sufficient funds to offset the items charged against its account under the collection system, without impairing the reserve required to be kept in the Federal Reserve Bank of New York as shown by the books of the Reserve Bank, the amount of such funds to be determined by experience gained from actual operation.

3. Checks and drafts payable on presentation drawn on any member bank in District No. 2 which has joined the collection system, will be received for immediate credit subject to final payment, but only from such member banks as have joined the collection system. Items drawn on one bank and marked "payable if desired" at another bank will not be received unless drawn on a member bank which has joined the collection system.

4. Items sent for credit should be divided in two classes:

(*a*) Items on member banks which are members of the New York Clearing House Association.

(*b*) Items on other member banks in this District.

The items under each of these divisions should be listed on a separate sheet stating the name or transit number of the bank on which each item is drawn, and the amount. Each sheet should be separately footed, and where more than one sheet is used in listing items under either of the divisions, the totals of such sheets should be listed and footed on a separate sheet.

5. All items received before 1 P. M. (except on Saturday, when the hour will be 12 noon) will be credited on the day of receipt. Items received after these hours will not be credited until the following business day. All items except those cleared through the New York Clearing House, will be mailed at the close of each day to the member banks on which they are drawn. Member banks must advise the Federal Reserve Bank of New York on the day of receipt that such items have been received and credited. Unpaid items, not subject to protest, must be returned on the day of receipt; protested items must be returned not later than the day after receipt. Returned items will be credited to the account of banks on which they are drawn and charged to the account of and returned to the banks from which received. Unpaid items must not be held for any purpose whatsoever except for immediate protest.

6. In receiving the checks and drafts herein referred to, the Federal Reserve Bank of New York will act only as the collecting agent of the sending bank, will assume no responsibility other than for due diligence and care in forwarding such items promptly, and is expressly authorized to send such items for payment direct to the bank on which they are drawn, or to another agent for collection at its discretion.

7. Checks and drafts drawn on member banks which have joined the system may be stamped or printed across the face, "Collectible at par through the Federal Reserve Bank of New York," but such indorsement shall never be held to import that the Federal Reserve Bank of New York in accepting such checks or drafts for collection, has become the owner thereof or is acting otherwise than as the agent of the sending bank.

8. Member banks which do not join the collection system at the time of its inauguration, may do so at any subsequent time. Member banks will be permitted, on thirty (30) days' notice to the Federal Reserve Bank of New York to withdraw from the collection system and the Federal Reserve Bank of New York may, at its discretion, withdraw the privileges of the collection system from any member bank which fails to observe these rules and requirements, or for other good and sufficient reasons.

On the first and fifteenth days of each month, all changes, if any, which have occurred in the list of members of the collection system since the preceding notice, will be published, and immediately thereafter the additions or withdrawals listed therein shall become effective.

9. No *exchange* charge will be made nor will any *exchange* charge be paid by the Federal Reserve Bank of New York in operating this collection system, which is a reciprocal arrangement for the mutual benefit of all member banks which join it.

(NOTE: The Federal Reserve Act provides that charges, to be fixed by the Federal Reserve Board, may be imposed for the service of collection rendered by the Federal Reserve Banks. No charge will be made for the present, but if after experience in operating the collection system, a charge is found necessary, such charge will be imposed only after due notice and will not be retroactive).

10. All items forwarded to the Federal Reserve Bank of New York must be indorsed without restriction to the order of the Federal Reserve Bank of New York with all prior indorsements guaranteed, and show on each side of the indorsement the American Bankers Association transit number in prominent type. An indorsing stamp will be furnished to each member bank joining the collection system.

11. The Federal Reserve Bank of New York reserves the right to add to, alter or amend these rules and requirements from time to time.

Discount Rate on May 1st.

The rates in force on May 1st, at the different Federal Reserve Banks were as follows:

Class of Paper	Boston	New York	Philadelphia	Cleveland
30 days...	4	4	4	4
60 days...	4	4	4	4
90 days...	4½	4	4½	4½
Longer....	5	5	5	5

	Richmond	Atlanta	Chicago	St. Louis
30 days...	4½	4½	4	4
60 days...	4½	4½	4	4
90 days...	4½	5	4½	4½
Longer....	5	5	5	5

	Minneapolis	Kansas City	Dallas	San Francisco
30 days...	4	4	4	4
60 days...	4½	4	4	4
90 days...	5	4½	4½	4½
Longer....	5	5½	5	6

The rate for acceptances in Boston, New York, Chicago and Minneapolis are announced by the Federal Reserve Board as—minimum, 2%—maximum, 4%.